

Iowa Public Employees' Retirement System (IPERS)

Presentation to the Public Retirement Systems Committee

November 2, 2005

Donna M. Mueller, Esq.
CEO, IPERS

Patrice A. Beckham, FSA
Consulting Actuary, Milliman USA

Contents

Performance **Page 3**

Investments

Service

Costs

Impact **Page 8**

Mandate

Participating employers, contributing members, and retirees

Payments in Iowa

Issues **Page 12**

Retirement behavior

Inflation and cost of living

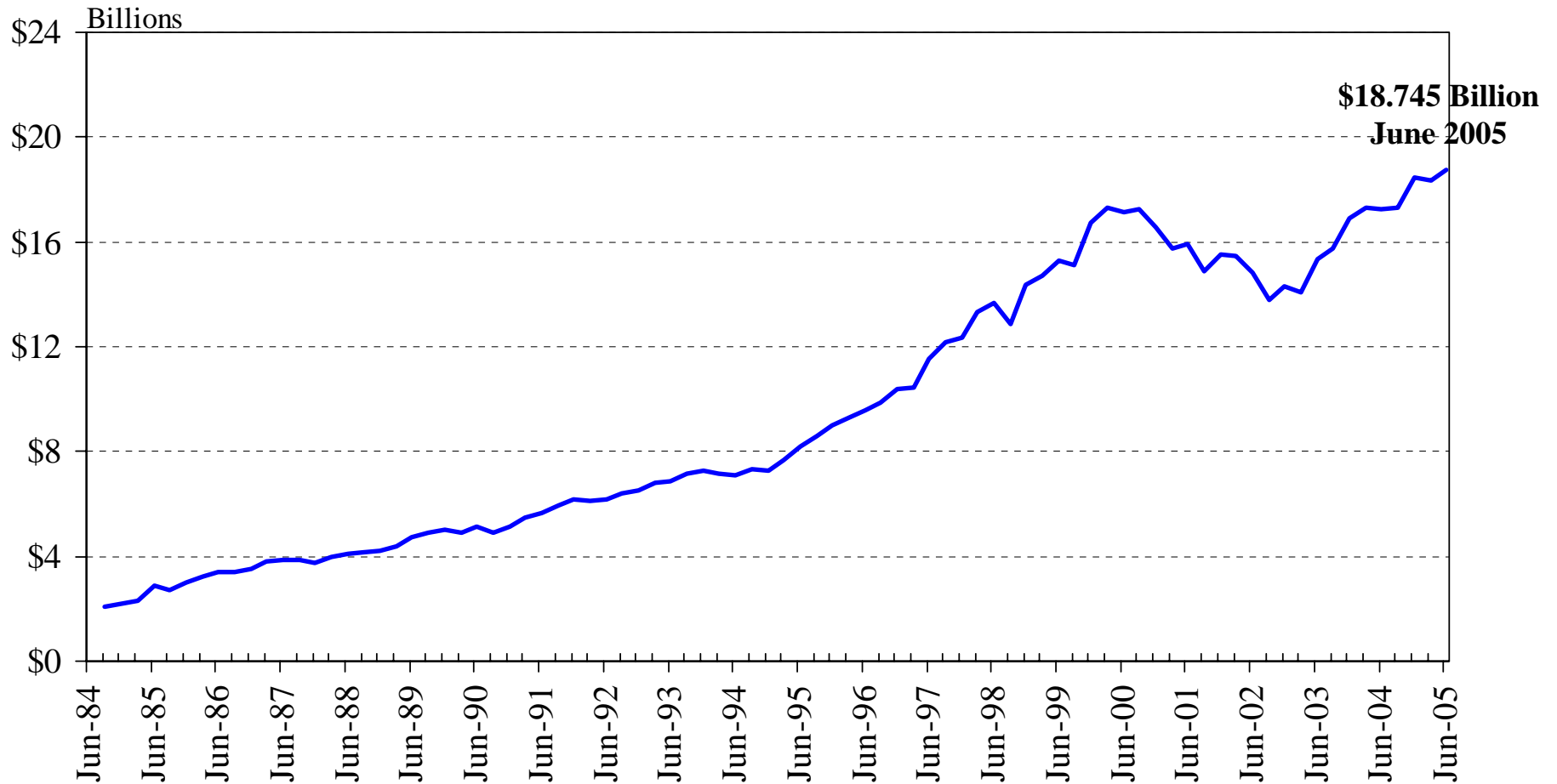
Special Service occupations (public safety)

Long-term funding

Recommendations for legislative action **Page 29**

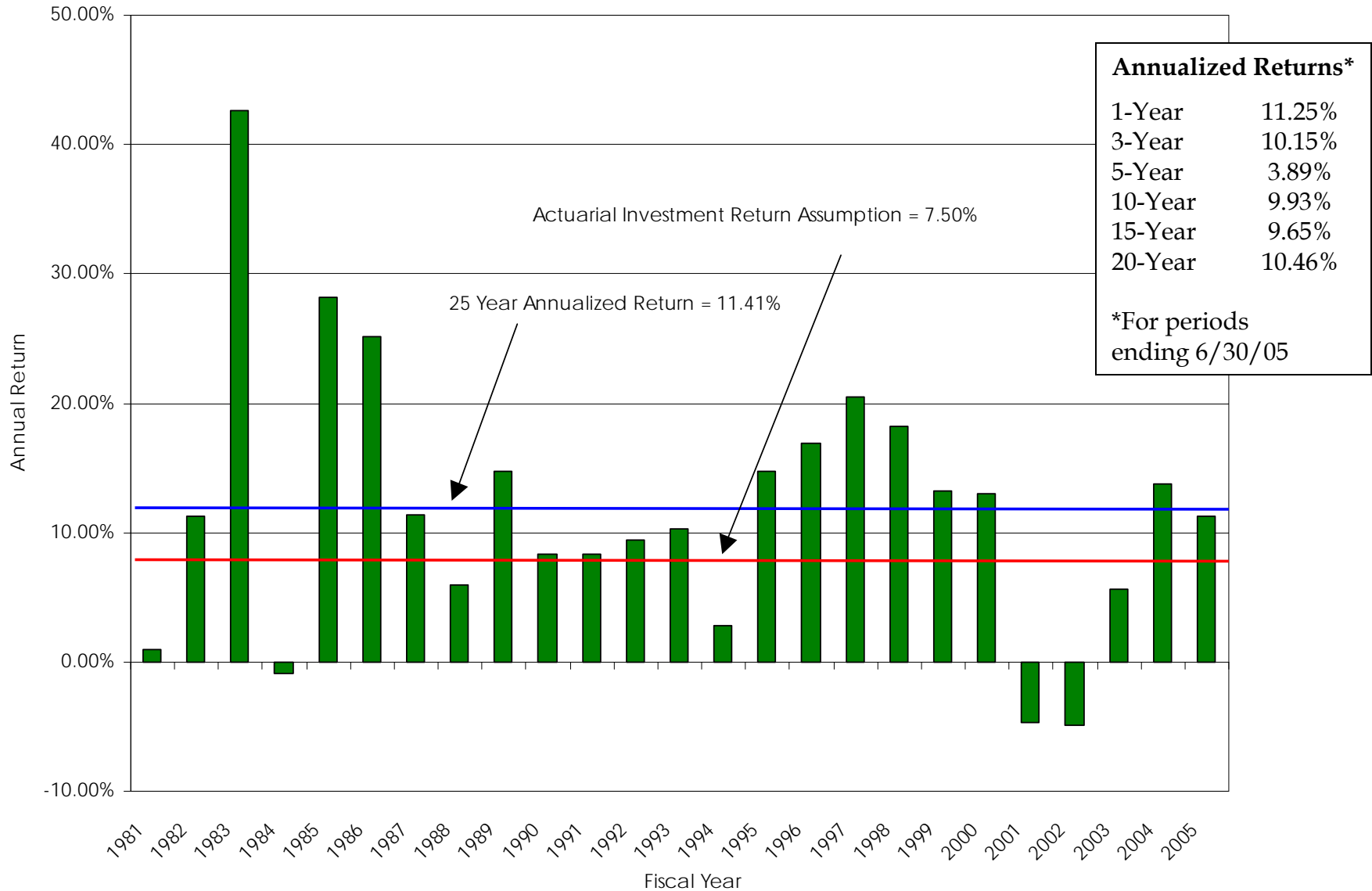
Growth of Net Investment Portfolio Assets

Historical Summary as of June 30, 2005



Asset values above are net of the periodic withdrawals made since FY1997 to provide partial funding for IPERS' expenses (retirement benefit payments, refunds and administrative costs).

Fiscal Year Investment Returns 1981-2005



Investment Returns Earn Top TUCS Rankings

Fiscal Year 2005

- 11.25% investment return
- Return ranked in the top quartile in three of the Trust Universe Comparison Service's (TUCS) institutional investor peer universes
 - TUCS Public Pension Funds with Assets Greater than \$1 Billion
 - TUCS All Master Trusts Universe
 - TUCS Public Funds Universe

Ten years (for the ten years ended 6/30/05)

- Top decile of TUCS Public Funds
- Top decile of TUCS Public Funds > \$1 Billion Universe
- Top third of TUCS All Master Trusts Universe

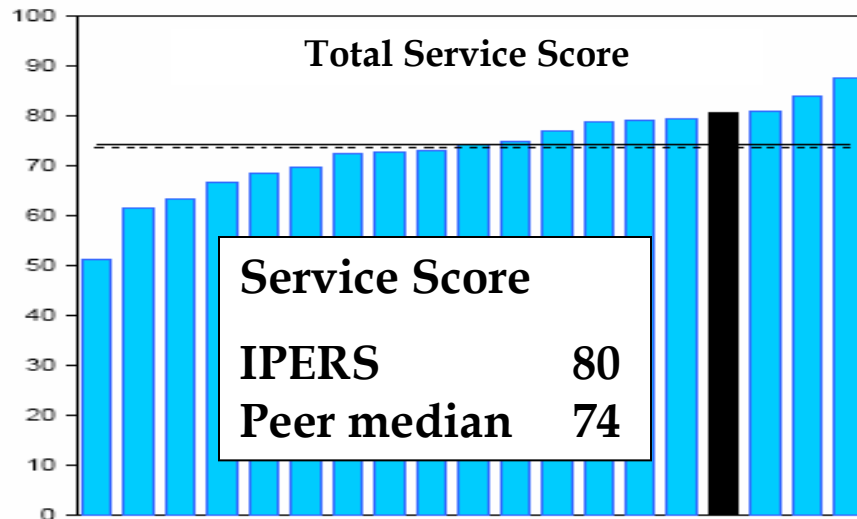
Services Rank High

Survey

- About 96 percent of 237 public employers surveyed feel the overall value of IPERS is very good or excellent.
- More than three-fourths of employers said offering the pension plan as part of their employee benefit package is helpful in recruiting and keeping good employees.
- Over 98 percent of 1,068 IPERS members taking part in the survey rated IPERS' overall performance as very good or excellent.

From Survey of IPERS Members, Employers and Elected Officials, T.L. Grantham & Associates, 2005

Benchmarking Study

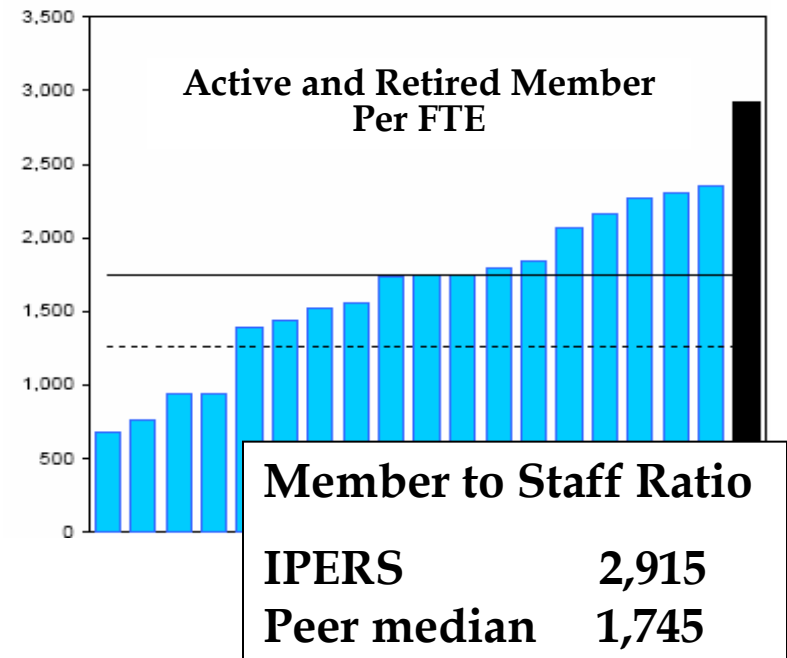
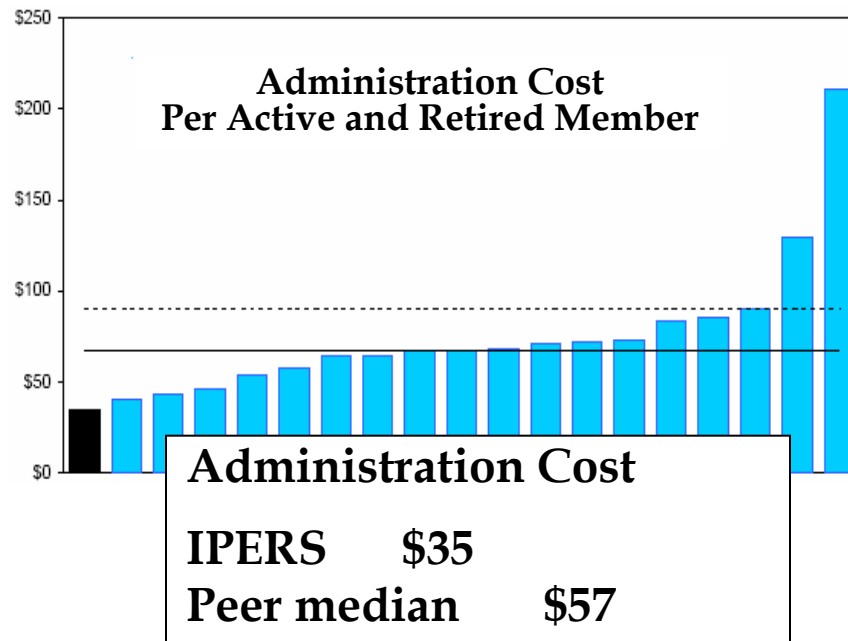






IPERS
Peer
Peer median
All median



From *Defined Benefit Administration Benchmarking Analysis*
January 7, 2005, Cost Effectiveness Measurement Inc.

Costs Are Low

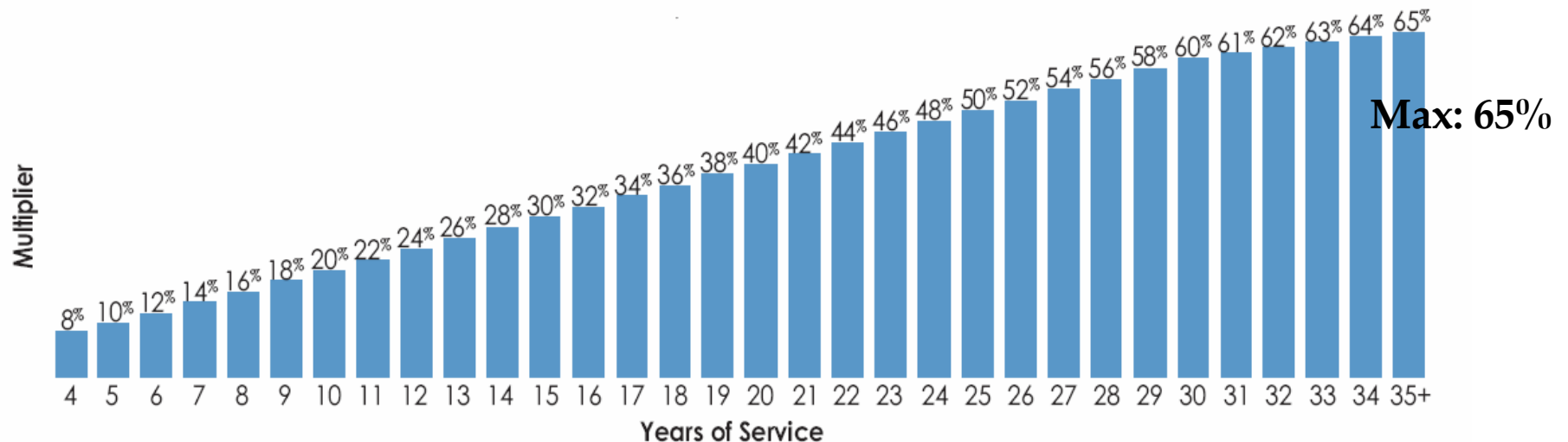


IPERS 
Peer 
Peer median 
All median 

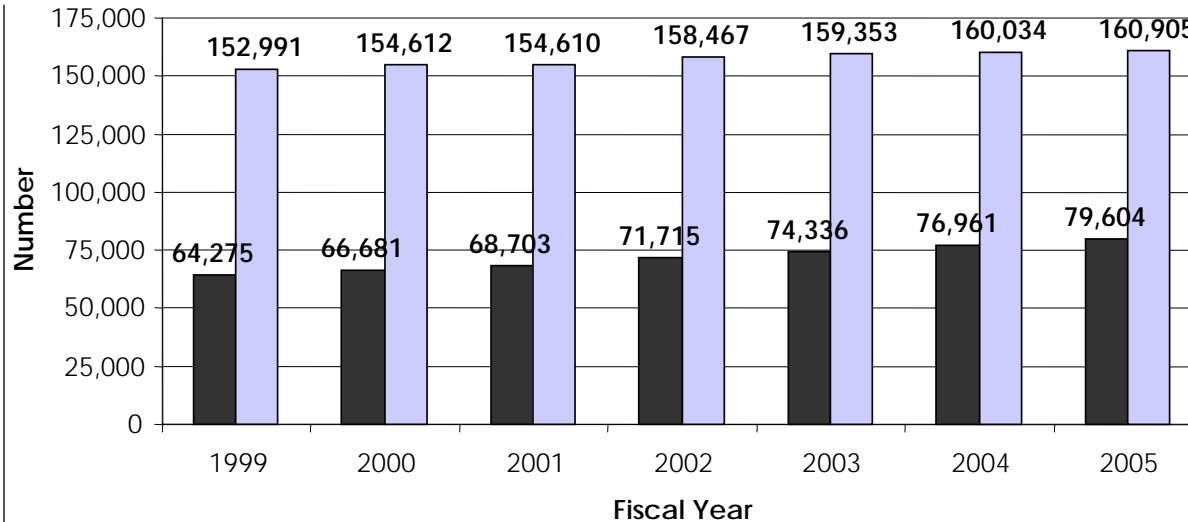
From *Defined Benefit Administration Benchmarking Analysis*
 January 7, 2005, Cost Effectiveness Measurement Inc.

Mandate in Iowa Code Chapter 97B

- Help public employers recruit and retain high-grade personnel
- Provide annuities that enable employees to care for themselves in retirement
 - Part of total compensation
 - Works with Social Security and personal savings
 - Core retirement plan that includes death and disability benefits
 - Formula includes years of service, average high 3-year annual salary, and a multiplier

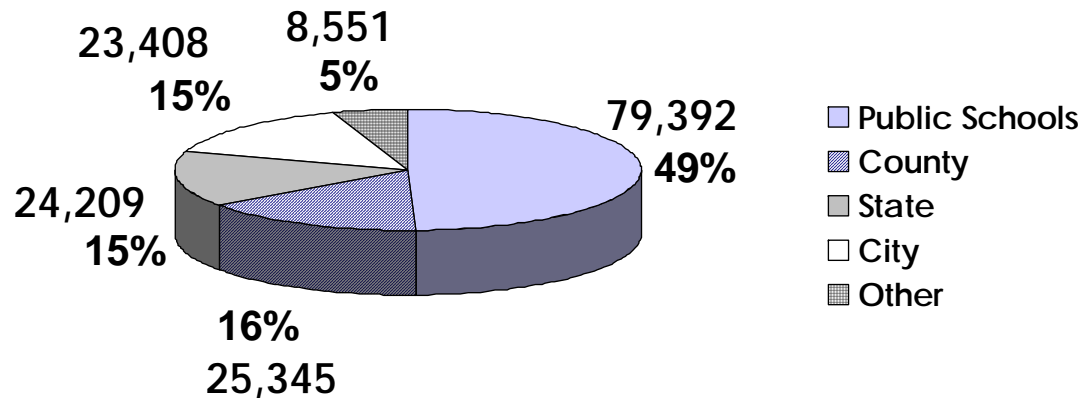


Retirees and Active (Contributing) Members



From 1999–2005, the number of retirees increased by 15,329, or about 24%, and the number of active members increased by 7,914, or about 5%.

Employment of Active Members



Typical Contributing Member



Works in a school or for a local government

Reports wages to IPERS of about \$20,000

Contributes about \$740 (3.7%) a year to IPERS for retirement

Has an employer that contributes about \$1,150 (5.75%) to IPERS

Will retire at age 62

Typical Retiree



Lives in Iowa

Is 72 years old

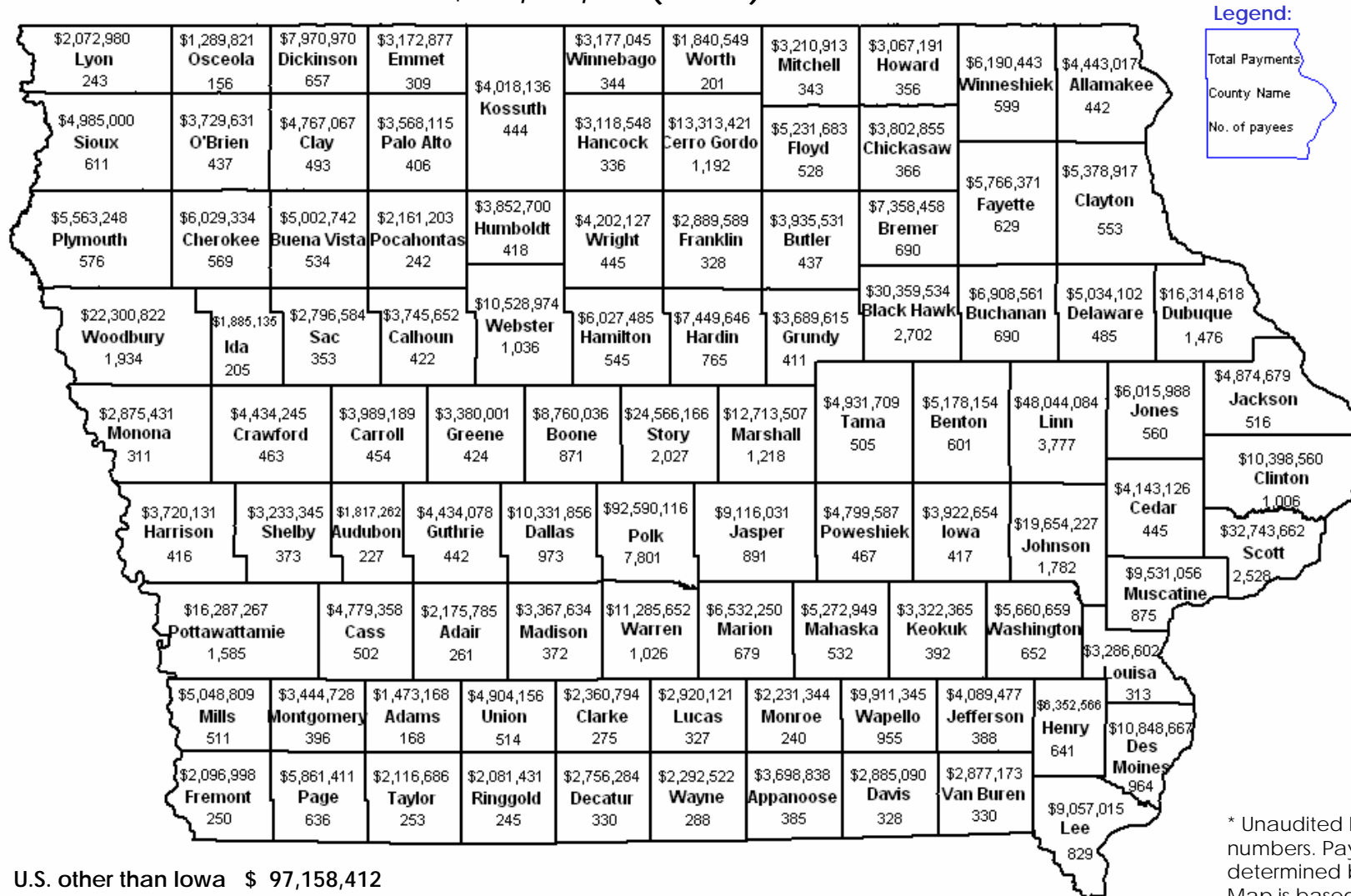
Served the public for more than 21 years

Retired at age 62

Receives about \$870 a month from IPERS

IPERS FY2005 Benefit Payments*

\$743,629,232 (88.4%) in Iowa



U.S. other than Iowa \$ 97,158,412
 Outside U.S. \$ 162,431
 Total \$840,950,075

* Unaudited FY2005 numbers. Payments determined by ZIP Code. Map is based on cash accounting method.

Retirement Behavior

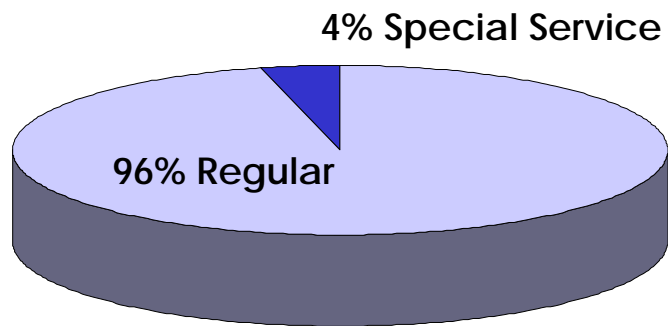
- Employer-sponsored early retirement incentives affect retirement behavior
 - May apply for IPERS benefits earlier than would have
 - Likely to draw benefits longer
 - Incentives may encourage employees to leave hard-to-fill positions; employer may want employee to work after retirement
 - Employee may want to work after retirement at current or other employer
- The number of retirees returning to work is expected to increase
 - Current bona fide retirement period is four months
 - Current bona fide retirement period for health care professionals in some public hospitals reduced to one month. Report of impact due next year.

Special Service

- Originally created to provide for retirement of public servants with careers shortened by physical demands of public safety jobs
- Ongoing requests for membership expansion



IPERS membership types



Regular members' fixed contribution rate is set by the Legislature
3.7% employee
5.75% employer

Special Service members' contribution rates are actuarially determined and set in rule.

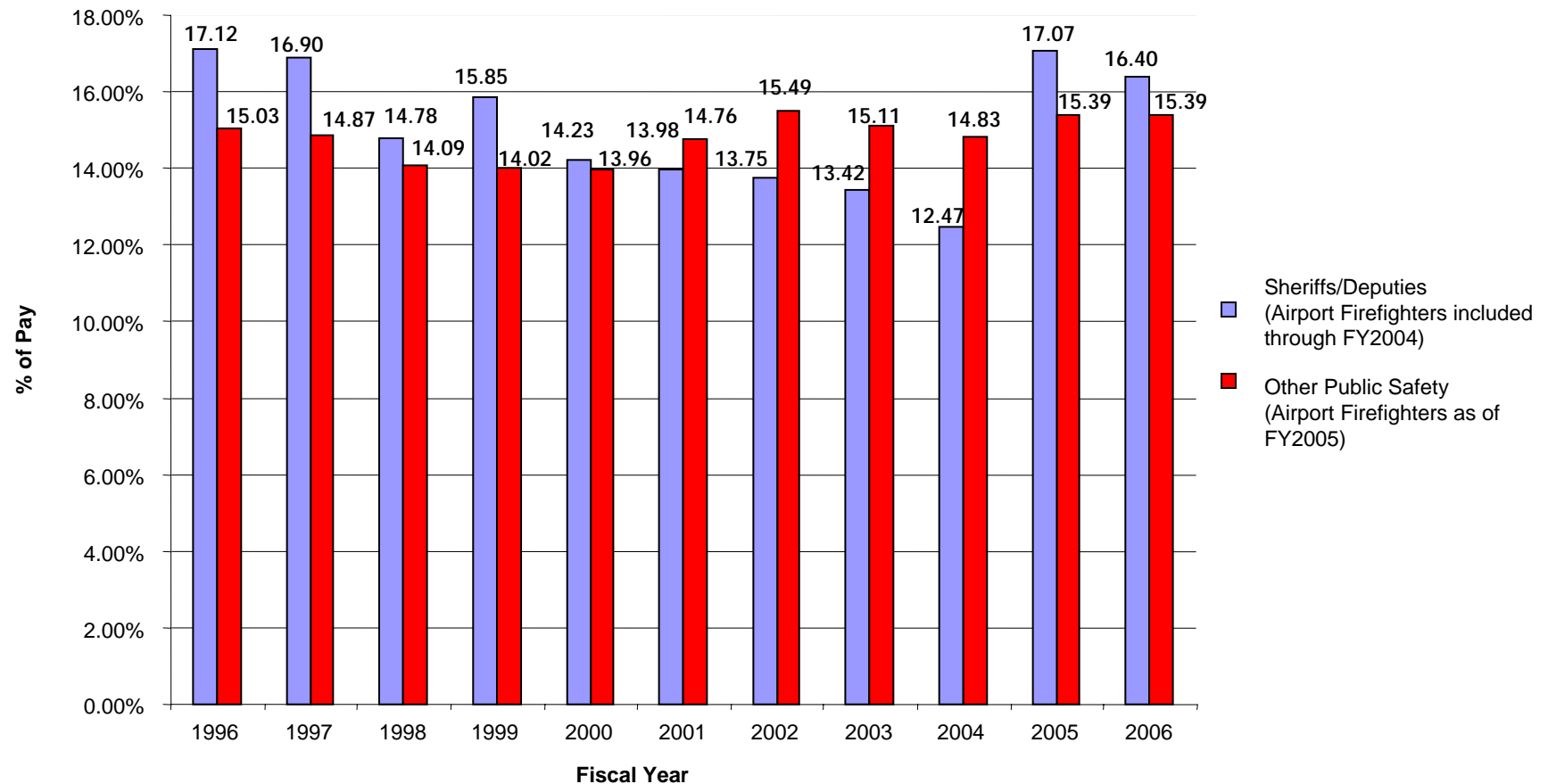
Sheriffs and Deputy Sheriffs (FY2006)

8.2% employee
8.2% employer

Other Public Safety (FY2006)

(e.g. correctional and conservation officers, airport firefighters, and police and firefighters not covered by another public retirement system)
6.16% employee
9.23% employer

Special Services Contribution Rates (In percent)



Inflation and Cost of Living

No traditional COLA program in IPERS

November Dividend for Pre-July 1990 Retirees

- Base payment guaranteed by law
- Payment made once a year
- Payment based on a formula that applies a multiplier to the base payment
- The multiplier is not applied to the base unless IPERS' actuary certifies that the increase can be supported by current contribution rates
- No increase to the base payment since November 2002
- \$16.6 million to 20,964 retirees in November 2005
- Average payment: \$792.47

FED (Favorable Experience Dividend) for Post-July 1990 Retirees

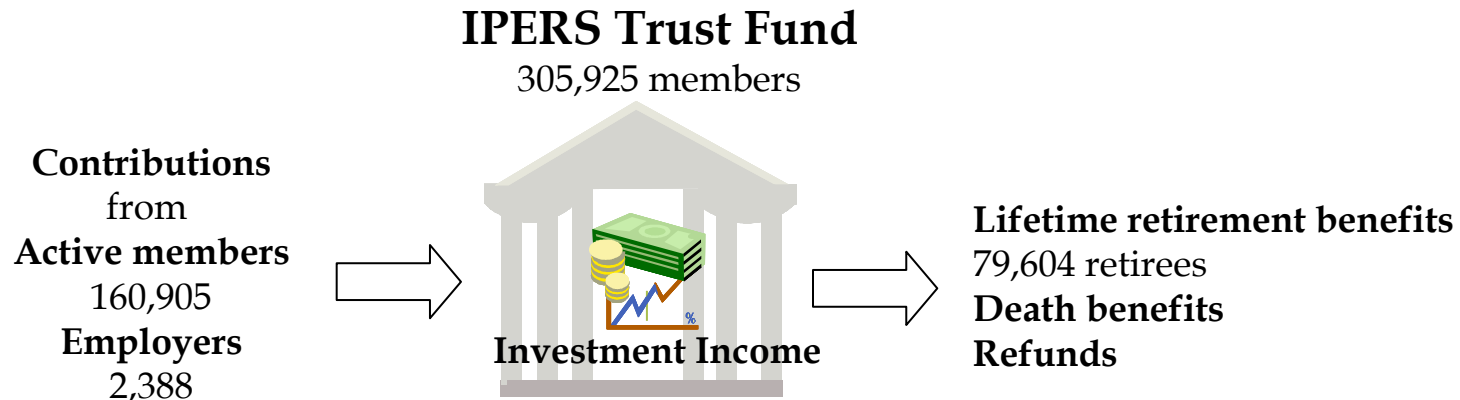
- Annual payment based on formula defined in law
- Formula includes a multiplier
- Multiplier limited to no more than 3%
- Multiplier frozen at 1.07% since 2003
- January 2006 FED estimated at \$43 million for 56,454 retirees
- Average payment about \$760
- Paid from the FED Reserve Account established by the Legislature in 1998
- Money not transferred into this account unless IPERS' unfunded actuarial liability can be amortized over 15 years or less
- Last transfer into this account in FY2001
- With the multiplier frozen at 1.07%, funds will run out in roughly 9–10 years

November Dividend and FED Multiplier Compared to CPI

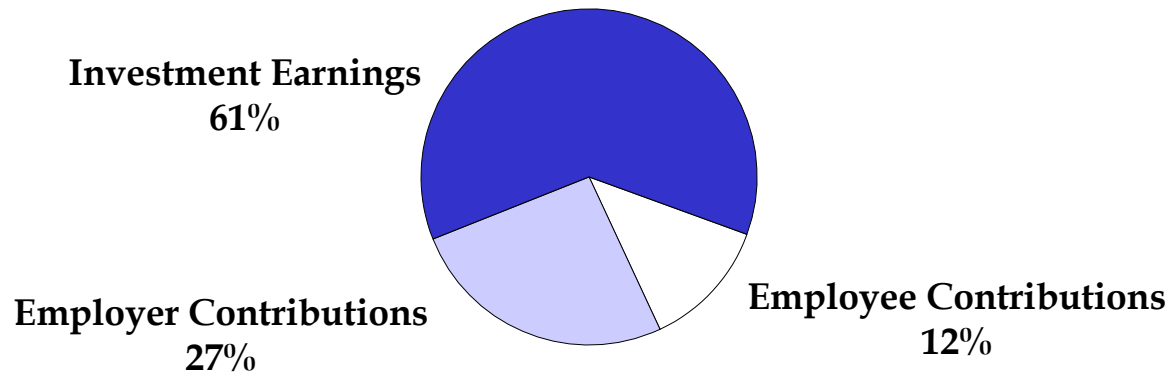
Paid In FY	November Dividend	Number of Recipients	%	FED	Number of Recepients	%	Actual CPI
1999	\$14,086,374	33,414	1.33	\$12,152,683	26,993	1.33	1.33
2000	\$15,451,127	31,462	1.59	\$18,797,522	29,590	1.59	1.59
2001	\$19,010,893	29,644	3.00	\$46,219,145	35,152	3.00	3.73
2002	\$22,284,857	27,778	3.00	\$57,890,007	39,291	3.00	3.25
2003	\$20,835,973	25,963	0.00	\$25,570,783	43,758	1.07	1.07
2004	\$19,300,657	24,202	0.00	\$31,067,817	49,438	1.07	2.11
2005	\$17,752,181	22,451	0.00	\$37,178,186	52,681	1.07	3.27
2006	\$16,613,319	20,964	0.00	\$42,986,671*	56,454*	1.07	2.53

*Estimated

Public Retirement System Funding



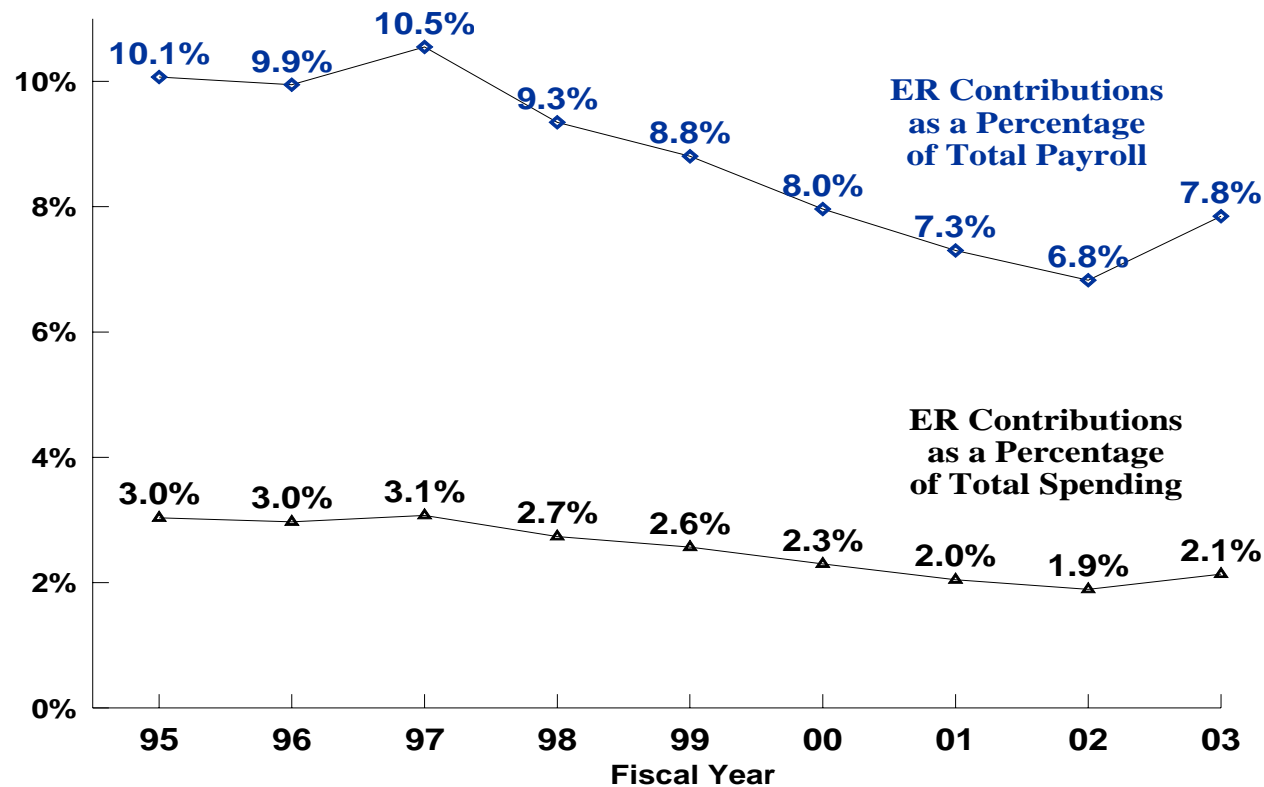
Sources of Revenue in U.S. Public Pension Systems



Source: Keith Brainard, National Association of State Retirement Administrators, based on information from the U.S. Census Bureau 1983-2003

U.S. Public Employer Pension Contributions

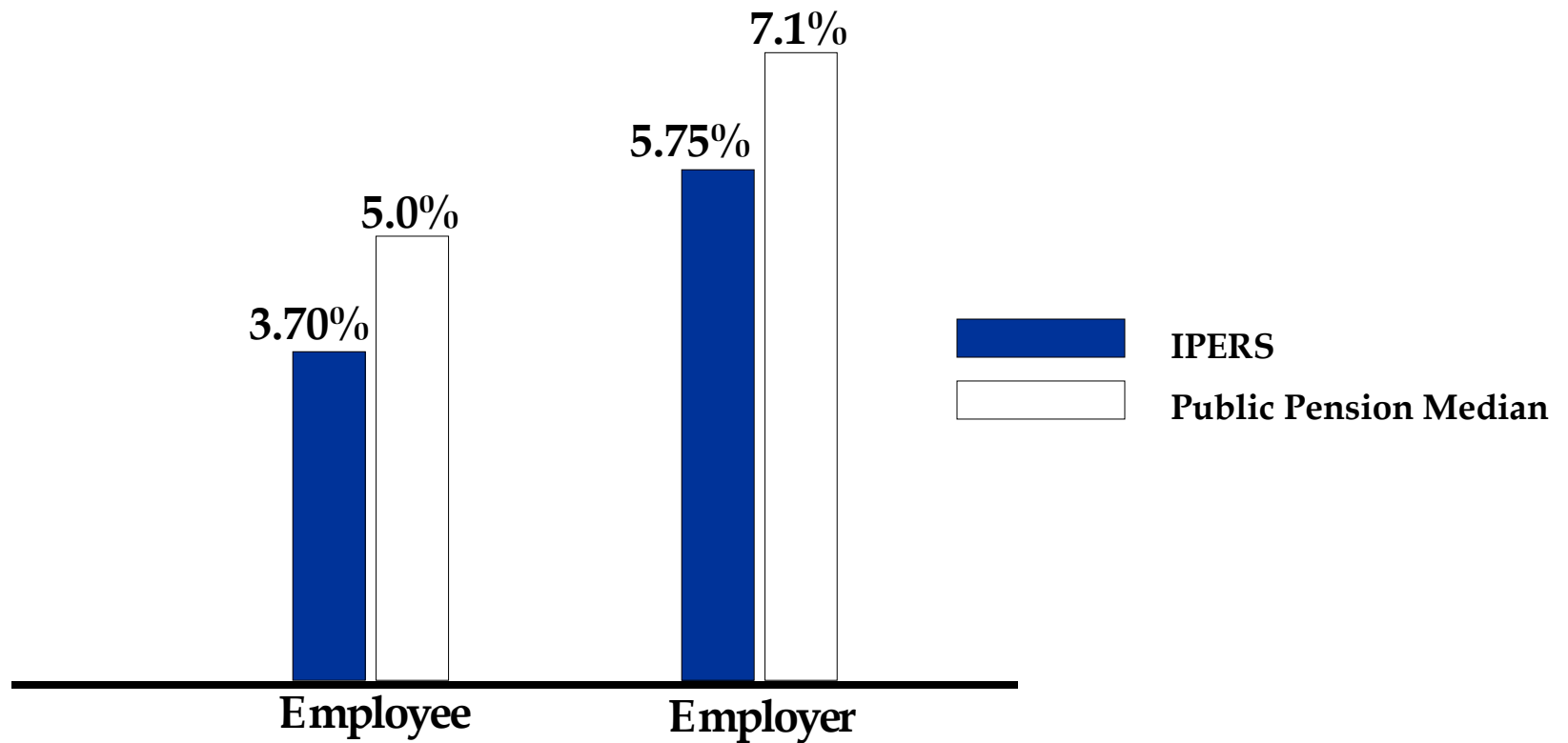
As a Percent of State and Local Government Payroll and Total Spending



Source: Keith Brainard, National Association of State Retirement Administrators,
based on information from the U.S. Census Bureau

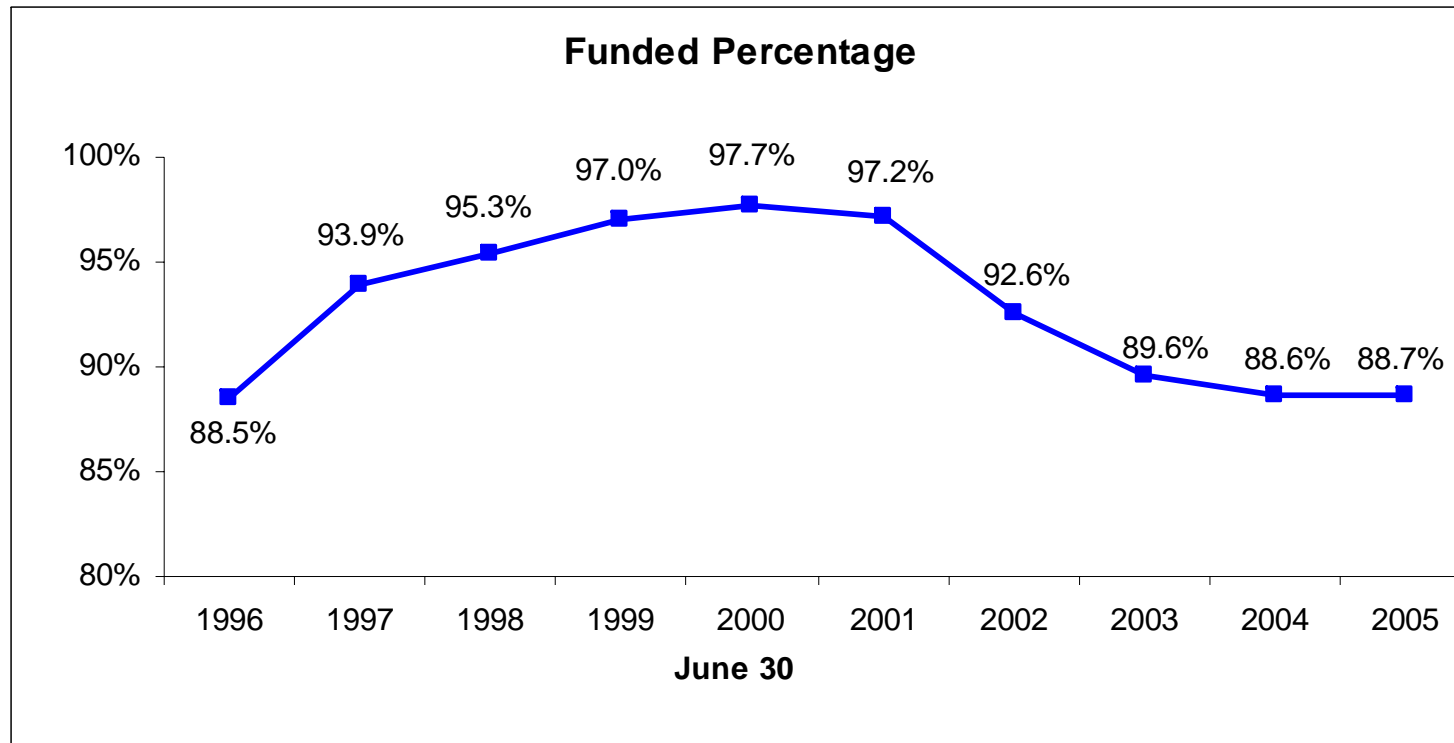
Contribution Rates

IPERS vs. Public Pension Median

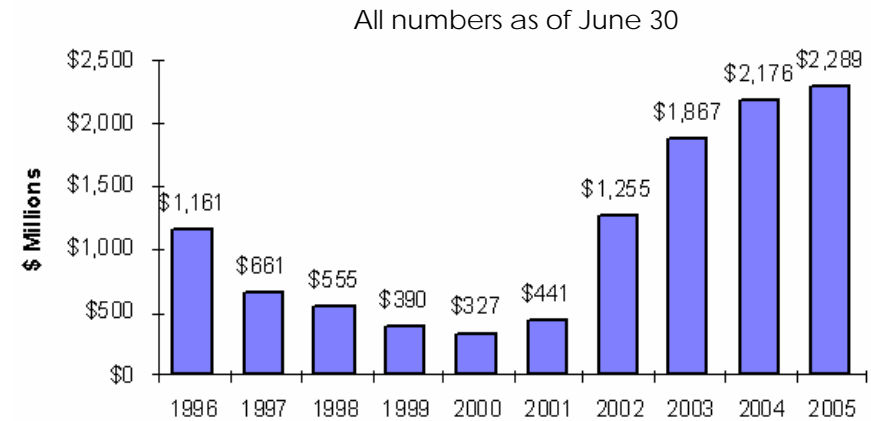


Source: Public Fund Survey Summary of Findings, Keith Brainard,
National Association of State Retirement Administrators, Sept. 2005
Survey reflects only Social Security-eligible plans; does not include noncontributory plans.

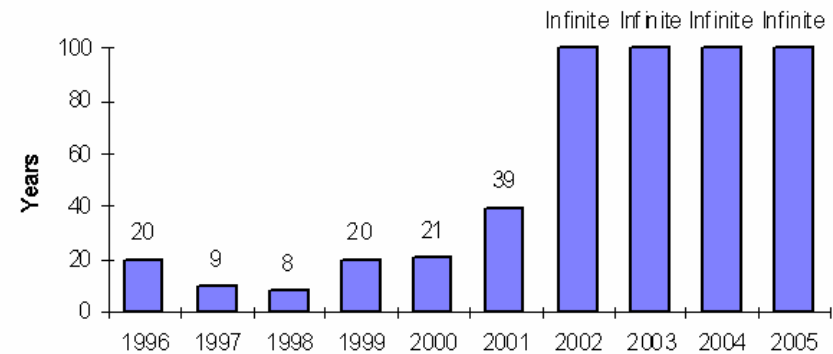
IPERS Funded Ratio



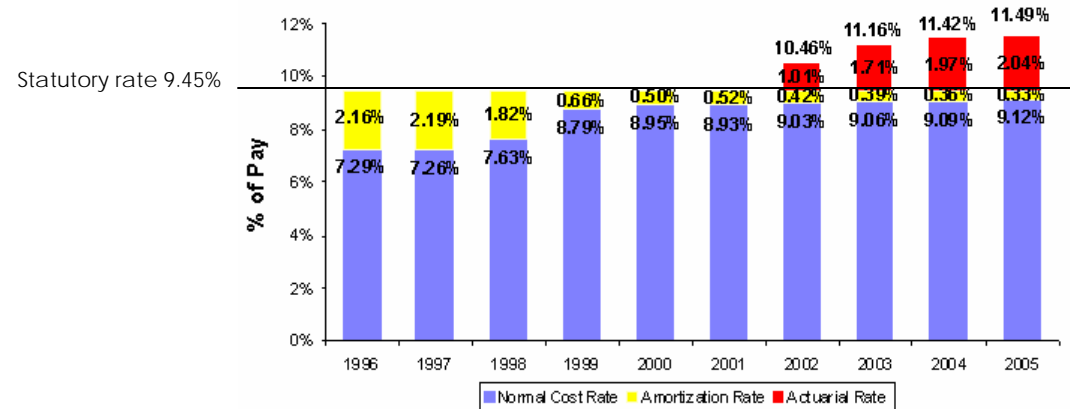
Unfunded Actuarial Liability



UAL Amortization



Normal Cost, Amortization, and Actuarial Rate



Summary of Historical Change in IPERS' Unfunded Actuarial Liability

<u>(\$Millions)</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Unfunded Actuarial Liability (BOY ¹)	1,161	661	555	390	327	441	1,255	1,867	2,176
• Expected Change									
- From Amortization Method	-1	-43	-37	-32	-22	3	24	36	42
- Contributions less than Actuarial Rate							61	87	103
• Investment Experience	-474	-716	-730	-781	-81	409	402	75	-89
• Liability and Other Experience	-25	118	-211	515	217	258	125	82	57
• Benefit Enhancements	0	342	0	142	0	3	0	29	0
• Change in Assumptions	0	0	587	0	0	141	0	0	0
• FED Transfer	0	193	226	93	0	0	0	0	0
Unfunded Actuarial Liability (EOY ²)	661	555	390	327	441	1,255	1,867	2,176	2,289
Amortization Years	9	8	20	21	39	*	*	*	*

*Infinite

1 = Beginning of Year

2 = End of Year

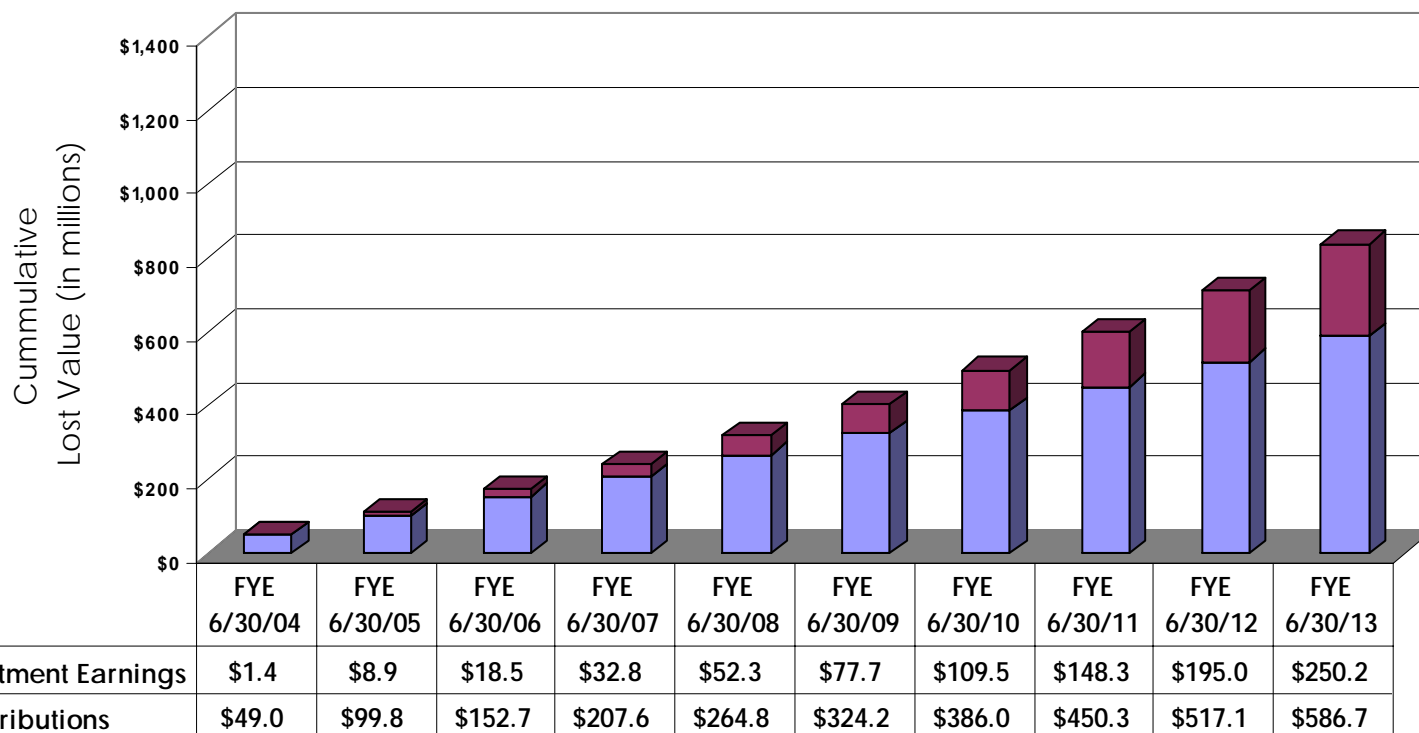
Summary of Normal Cost Change

Regular Membership

	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Normal Cost Rate (Beginning of Year)	7.29%	7.26%	7.63%	8.79%	8.95%	8.93%	9.03%	9.06%	9.09%
Benefit Enhancements	0.00%	0.41%	0.00%	0.11%	0.00%	0.00%	0.00%	0.00%	0.00%
Changes in Assumptions	0.00%	0.00%	1.13%	0.00%	0.00%	0.13%	0.00%	0.00%	0.00%
Demographic Experience	-0.03%	-0.04%	0.03%	0.05%	-0.02%	-0.03%	0.03%	0.03%	0.03%
Normal Cost Rate (End of Year)	7.26%	7.63%	8.79%	8.95%	8.93%	9.03%	9.06%	9.09%	9.12%

The Cost of Inaction

Scenario 1: Lost contributions and investment earnings with an assumed actuarially required contribution rate of 10.46% effective 07/01/03

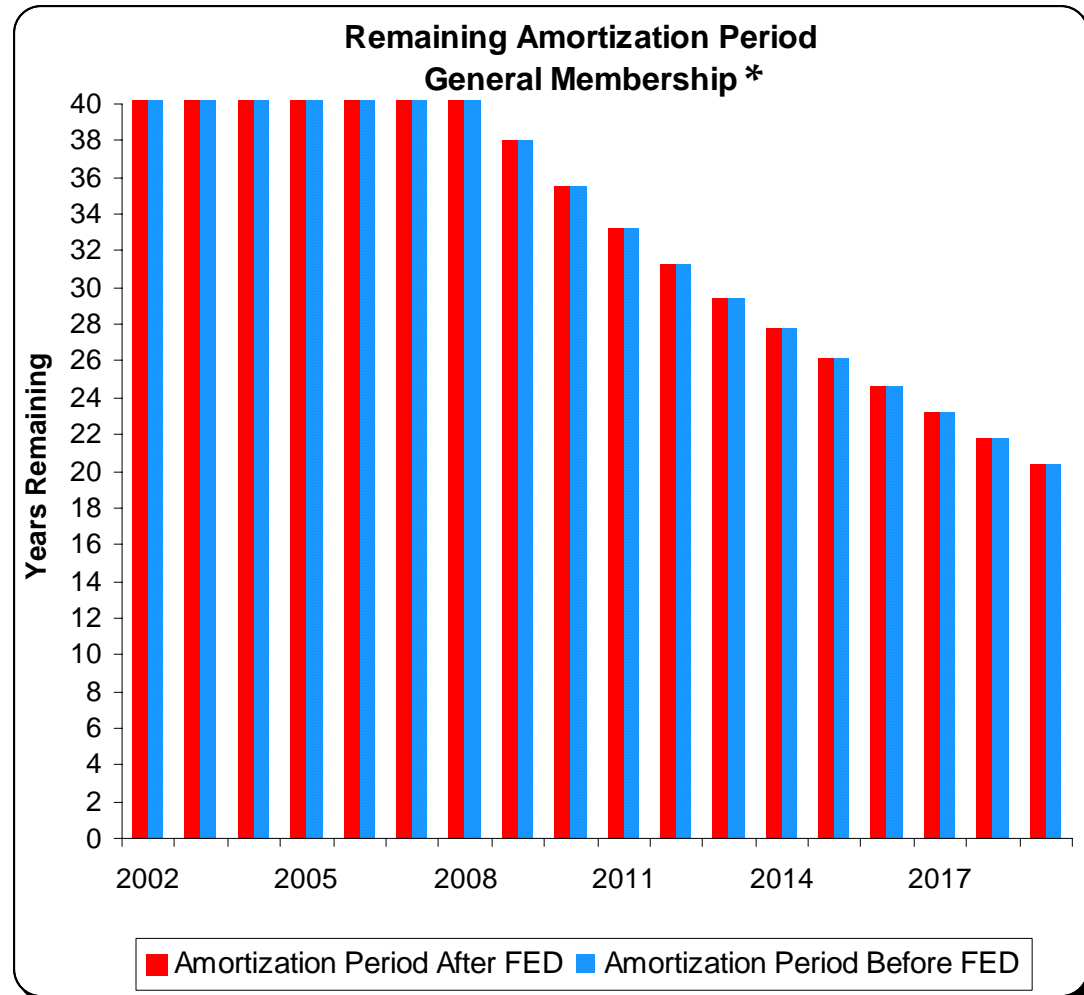


Through 6/30/05 actual payroll base and investment earnings applied. Thereafter actuary's assumptions applied: 4% annual payroll growth and 7.5% annual investment earnings.

Effect of Action

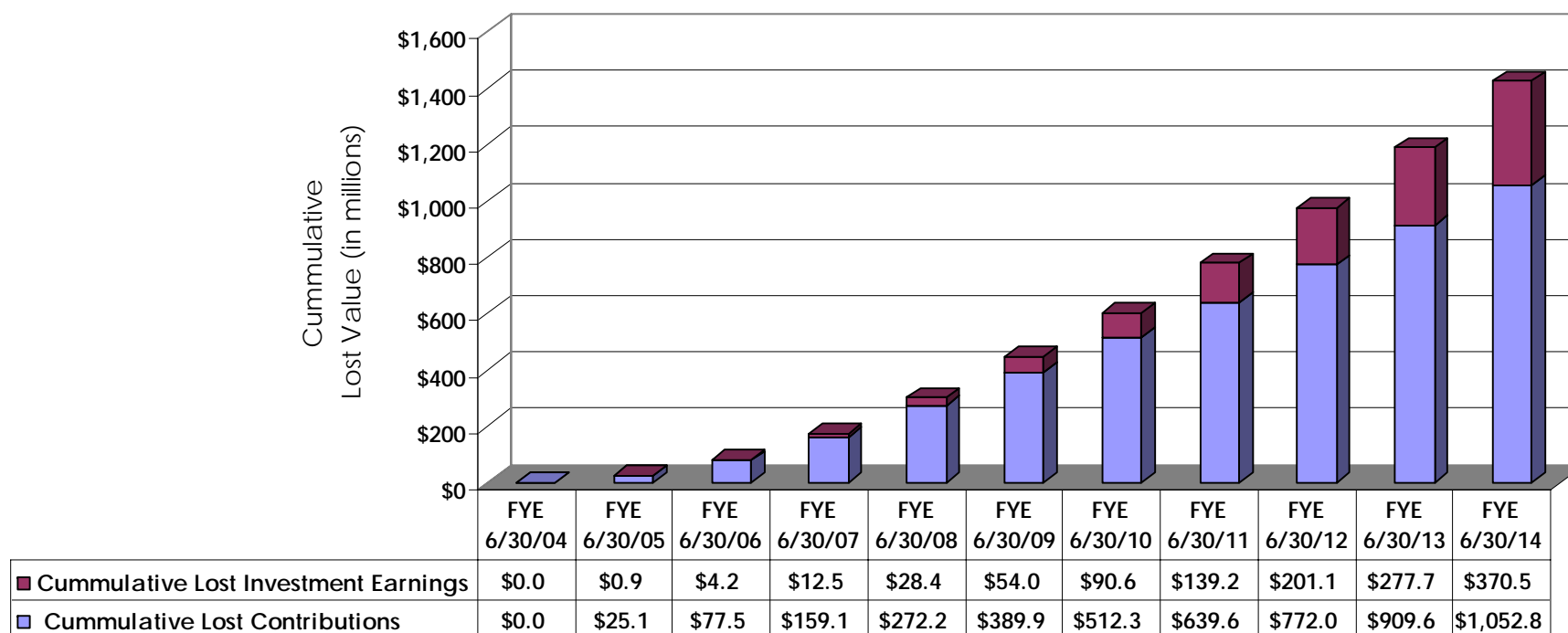
Scenario 1: 10.46% contribution rate effective 7/1/03

*For illustrative purposes using modeling tools from IPERS' 2002 actuarial valuation and assumptions noted on the previous page. Projections are not the result of a full actuarial study.



The Cost of Inaction

Scenario 2: Lost contributions and investment earnings with a 0.50 percentage point contribution rate increase for each of four years effective 07/01/04

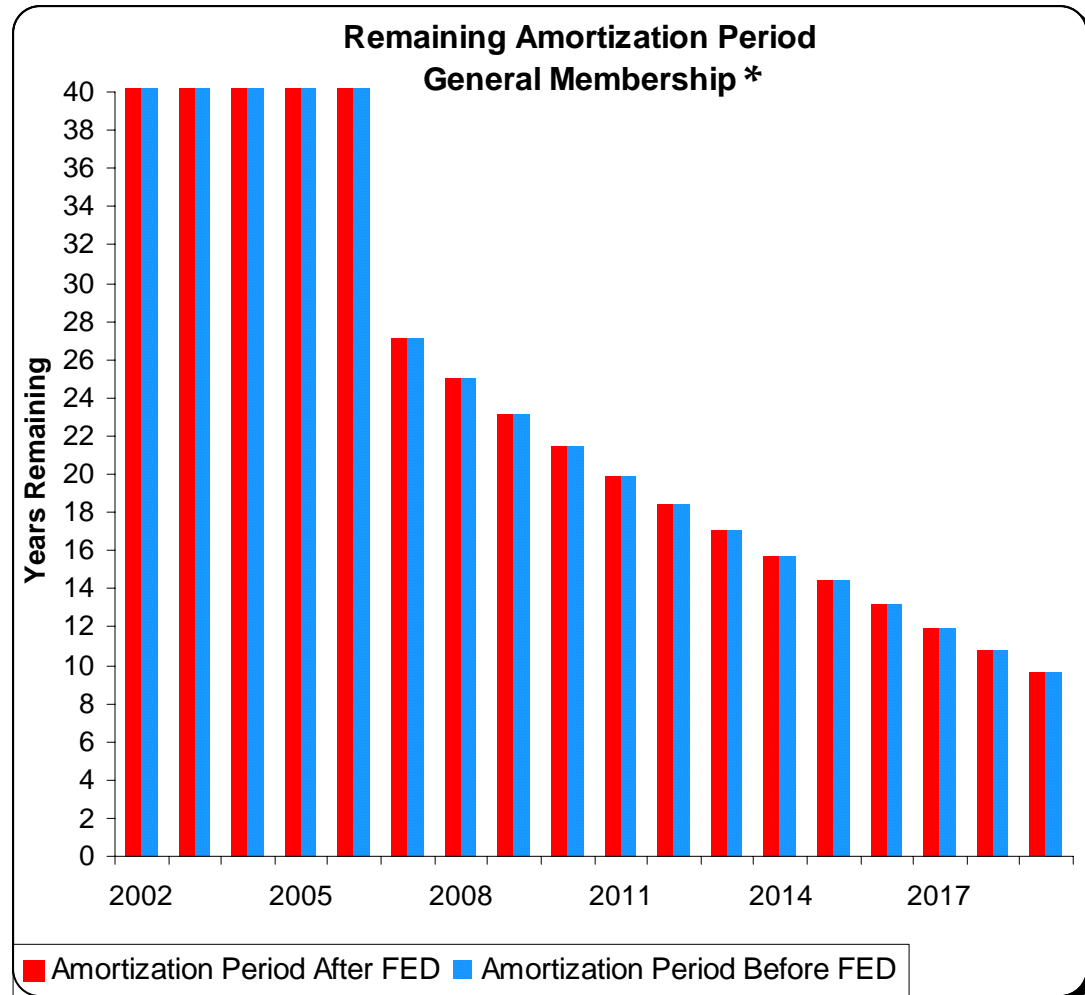


Through 6/30/05 actual payroll base and investment earnings applied. Thereafter actuary's assumptions applied: 4% annual payroll growth and 7.5% annual investment earnings.

Effect of Action

Scenario 2: Contribution rate increase of 0.50 percentage point for each of four years effective 07/01/04

*For illustrative purposes using modeling tools from IPERS' 2002 actuarial valuation and assumptions noted on the previous page. Projections are not the result of a full actuarial study.



IPERS' Recommendations

HF 729

- Continue to prefund IPERS to avoid shifting responsibility to future generations.
- Act now rather than later because inaction increases costs.

Technical Bill

- Eliminate future move to highest 12 consecutive quarters of covered wages as final average salary.
- Make the date for delivering the IPERS annual report to the Governor consistent with other deadlines.
- Change the maximum amount for cashing out inactive accounts (no activity for 5+ years) to IRS rules.
- Clarify the term “eligible service” for benefits available to sheriffs and deputy sheriffs